

Weekly Commentary

March 15, 2010

The Markets

The American consumer is not dead.

Last week, a report from the Commerce Department showed a surprising increase of 0.3% in February U.S. retail sales compared to the month before. That may not seem like much of an increase, but it was much better than the *drop* of 0.2% expected by economists surveyed by Bloomberg. Importantly, it's also the fourth rise in the past five months and represents an increase of 3.9% over the year-ago period.

So, how can consumers ramp up spending when unemployment is so high? *Barron's* magazine pointed out a few reasons why this is occurring.

First, it is not unusual at this stage of the recovery. "The last time the unemployment rate broke double digits, during the deep recession of 1981-82, consumer spending also was increasing," according to *Barron's*.

Second, the government's February 2010 index of aggregate weekly payrolls was less than 1% below the number in February 2009. So, even though unemployment is high, total payroll income hasn't dropped dramatically in the last 12 months.

Third, the stock market has rallied substantially since a year ago. As a result, the "wealth effect" from a rising stock market helped consumers feel a bit wealthier and loosened their purse strings.

And, let's face it, Americans love to shop!

When you combine rising consumer spending with government stimulus and loose monetary policy, you have a recipe for rising stock prices. And, as if on cue, last week, the S&P 500 hit a new 17-month high, according to CNBC.

Data as of 3/12/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.0%	3.1%	52.0%	-6.5%	-1.0%	-1.8%
DJ Global ex US (Foreign Stocks)	1.8	0.6	73.5	-6.1	2.9	0.9
10-year Treasury Note (Yield Only)	3.7	N/A	2.9	4.6	4.5	6.4
Gold (per ounce)	-2.5	0.2	19.6	19.5	20.1	14.3
DJ-UBS Commodity Index	-1.7	-4.8	24.8	-7.5	-4.0	2.8
DJ Equity All REIT TR Index	3.6	7.5	91.9	-11.4	2.9	12.0

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

THE HARDER THEY FALL, the higher they rise. Would it surprise you to know that the worst stocks during the bear market that ran from October 9, 2007 to March 9, 2009 turned out to be--*by far*--the best performing stocks over the next 12 months?

Bespoke Investment Group did an interesting study where they took the S&P 500 stocks and ranked them from 1 to 500 with 1 being the worst performer and 500 being the best performer during the October 9, 2007 to March 9, 2009 bear market. Then, they sliced this ranking into deciles, with decile 1 being the 50 worst performers, decile 2 the next 50 worst performers all the way to decile 10, which were the 50 best performers.

They discovered that decile 1 (the 50 worst performing stocks during the bear market) turned around and rose, on average, 371% during the next 12 months that ended March 9, 2010. Decile 2, the next 50 worst performers, rose 184% over the ensuing 12 months. By contrast, decile 10, the 50 best performing stocks during the bear market, only rose 30% over the following 12 months. Essentially, the worst stocks during the bear market performed the best during the bull market and vice versa.

The study also showed that the *average* change of all stocks in the S&P 500 was 122% over the 12 months following the March 9, 2009 low.

This study points out one reason why understanding human emotion is an important factor in successful investing. Think of it this way: on March 9, 2009, at the bear market low, would you have been enthusiastic about buying stocks that had declined 80-90% over the previous 17 months? Probably not because your emotions would have been so rattled, yet, those were the types of stocks that turned out to be the best performers over the next 12 months, according to Bespoke Investment Group.

As the last few years have shown, successful investing sometimes requires that you gather your courage and do what seems most frightening because the point of maximum "frightening" may also be the point of maximum profit potential.

Weekly Focus – Think About It

"I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear."

--Nelson Mandela

Best regards,

Jim

Feel free to visit our website at:

www.franklin-group.com

Our Wealth Management users can login under the "Client Center" tab.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

- * Securities offered through MML Investor Services Inc. Member FINRA/SIPC.
- * **These views are those of PEAK, and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice.**
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- * The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
- * The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- * Consult your financial professional before making any investment decision.
- * You cannot invest directly in an index.
- * Past performance does not guarantee future results. Due to ongoing market volatility, current performance may be more or less than the results shown in this white paper.
- * To unsubscribe from the "Weekly Market Commentary", please reply to this e-mail with "Unsubscribe" in the subject line, or write us at Franklin Financial Group, 11350 McCormick Rd. EPIV Ste.200, Hunt Valley, MD 21031.
- * Compliance Number: CRN201203-132227